

Estimated Average Health Plan Investment Needs In the Next 3-5 Years*

(for Large Health Plans with Revenues > \$500 Million)

Investment Category	Low	High
HIPAA Health Insurance Portability and Accountability Act	\$30	\$60
eCommerce	\$10	\$40
Consumer-focused Initiatives	\$20	\$40
IT Infrastructure Improvements	\$30	\$50
Merger and Acquisition Activity**	\$330	\$450
Other (e.g., merger integration expenditures, partnerships / interconnectivity, potential future regulations, etc.)	Additional	Additional
Total Investment (in Millions)	\$420+	\$640+

Details to
Follow

*Estimates based on industry analyst projections and current market conditions; may evolve given new information over time

** Estimated based on the average actual cash expended on mid-range health plan acquisitions since 1997, screened against available merger candidates in CareFirst's markets

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; SEC Filings; Company press releases; Merger news articles; Accenture analysis, surveys and client experience

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Examination of mid-sized* merger and acquisition cash transactions indicate that health plans could spend \$330 - \$450 million pursuing acquisition opportunities.

Health Plan Merger & Acquisition Activity

Acquirer	Acquired	Date Closed	Deal Value (\$MM)	Total Cash Portion
WellPoint	RightCHOICE	Pending	\$1,300	\$390
Anthem	BCBS of Kansas	Pending	\$370	\$370
WellPoint	Cerulean	Mar 2001	\$700	\$700
WellPoint	Rush Prudential**	Mar 2000	\$200	\$200
Aetna	Prudential	Aug 1999	\$1,000	N/A
Aetna	NYLCare	Jul 1998	\$1,050	\$1,050
Coventry	Principal	Apr 1998	\$330	N/A
Health Systems Int'l	PHS	Dec 1997	\$265	\$265
Humana	PCA	Sep 1997	\$411	\$411
CIGNA	Healthsource	Jun 1997	\$1,700	\$1,700
Health Systems Int'l	Foundation Health	Apr 1997		N/A
PacifiCare	FHP	Feb 1997	\$2,200	\$1,000
United	MetraHealth	Oct 1995	\$1,140	\$1,090
Average mid-sized M&A cash transaction			\$330	\$389
			-15%	+15%
				\$450

*A mid-sized cash transaction was defined as >\$150 million and <\$750 million, deal value does not include contingency-based payments; **Terms of the Rush Prudential deal were not disclosed; however the acquisition was included in our average
Source: Company SEC filings and press releases



Health Plans Being Squeezed

Health Plans Expand & Access Equity

National Trends Playing Out in Mid-Atlantic Region

CareFirst Must Gain Substantial Scale & Access Capital

Timing Appears Favorable for CareFirst to Act

CareFirst's Constituents Likely to Benefit

Plans that have pursued economies of scale realized a cost advantage when implementing fixes for Y2K.

BCBS Plans spent \$1.84 to \$7.41 more per member than other health plans on Y2K

Potential Savings from Economies of Scale* – Y2K Example

Health Plan	Y2K Remediation Expense	1999 Members	Y2K Expense/Member
CIGNA	\$100 - \$125 MM	13.3 MM	\$7.51 - \$9.40
Aetna	\$179 MM	21.0 MM	\$8.52
PacifiCare	\$14 MM	3.7 MM	\$3.83
Humana	\$24 MM	5.4 MM	\$4.45
United	\$79 MM	13.8 MM	\$5.72
BCBSA	\$842 MM	74.9 MM	\$11.24

*Economies of scale may be realized if a company increases its size and proactively integrates its processes/operations

Source: Health Plan SEC Filings, BCBSA; Strategic Consulting Services (division of BCBSA)

Blues plans may have been able to save between \$138MM to \$555MM on Y2K expenditures if they had been able to better exploit economies of scale.

Operating at the per member Y2K expense of its peers, CareFirst could have realized savings of \$138 - \$555 million

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Low Estimate

$\$11.24 - \$9.40 =$
\$1.84
(CIGNA)

High Estimate

$\$11.24 - \$3.83 =$
\$7.41
(PacifiCare)



X

74.9 MM
(BCBSA Membership)

=

Estimated Y2K
Expenditure

\$842 MM

(Actual BCBSA Y2K Expenditure)

\$138 MM

Potential Y2K Savings

\$555 MM

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